

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements**  
**December 31, 2004**

**Note 1 – Summary of Significant Accounting Policies**

The basic financial statements of Macomb County (the County) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing such principles. All financial statements are for the year ended December 31, 2004, except as follows: the financial statements of the Child Care, Community Services, Friend of the Court, Health Grants, Veterans' Services and certain MSU Extension, Prosecuting Attorney, Senior Citizens and Sheriff Special Revenue Funds, the Community Mental Health Enterprise Fund, and the Road Commission and Public Works Component Units, which are reported as of and for the year ended September 30, 2004.

**Financial Reporting Entity** - Macomb County was incorporated in 1818 and includes an area of 482 square miles with the county seat located in the city of Mt. Clemens. The County operates under an elected Board of Commissioners (26 members). The Board of Commissioners is a legislative body that is also responsible for the administration of the County. The County provides many services to residents, including law enforcement, administration of justice, community development and enrichment, parks and recreation and human services.

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board, the financial reporting entity consists of the primary government as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined by GASB Statement No. 14, "The Financial Reporting Entity", as appointment of a voting majority of the component unit's board, and either (a) the ability of the primary government to impose its will on the component unit, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. The accompanying financial statements present the financial position and results of operations of Macomb County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County. In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

**Blended Component Units** - Blended component units are legally separate from the County, but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

The **Macomb County Criminal Justice Building Authority (MCCJBA)** is governed by a three-member board appointed by the County's Board of Commissioners. Although legally separate from the County, the MCCJBA is reported as if it were part of the primary government because its sole purpose is to finance and construct certain County Buildings.

The **Macomb County Building Authority** is governed by a seven-member board appointed by the County Board of Commissioners. Although legally separate from the County, the Building Authority is presented as a blended component unit because its sole purpose is to finance and construct certain County Buildings.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 1 – Summary of Significant Accounting Policies (continued)**

*Blended Component Units (concluded) –*

The **Macomb County Employee's Retirement System** (the "System") is governed by a seven-member board. Although it is legally separate from the County, the System is reported as if it were part of the primary government because its sole purpose is to administer the Macomb County Employees' Retirement System.

The **Macomb County Retiree Health Care Board** consists of five members of the Board of Commissioners, the County Treasurer and the County Finance Director. Although legally separate from the County, the Board is reported as if it were part of the County since its sole purpose is to administer the Macomb County Retiree Health Care Plan and Trust.

*Discretely Presented Component Units*

The **Macomb/St. Clair Workforce Development Board** (Michigan Works!) is governed by a separate board appointed by the County Board of Commissioners. Michigan Works! receives federal funds under the Job Training Partnership Act to operate employment and training programs that lead to unsubsidized employment for unskilled adults and youth. Its activities are included in the County's financial statements as the County is financially responsible for the entity and the exclusion of such activities would be misleading to the County's financial statements. Separate independently audited financial statements of Michigan Works! are not prepared.

The **Macomb County Road Commission** is governed by a separate board appointed by the County Board of Commissioners. The Road Commission constructs, operates and maintains primary and local roads within the County. The Road Commission's activities are included in the County's financial statements as the exclusion of such activities would be misleading to the financial statements. Complete financial statements of the Road Commission can be obtained from the Road Commission administrative offices, 156 Mallow St., P. O. Box 2347, Mt. Clemens, MI, 48046-2347.

The **Drainage Districts** are governed by separate boards composed of the Public Works Commissioner, the Chair of the County Board of Commissioners and Chair of the Finance Committee of the Board of Commissioners. Each Drainage District is a separate legal entity with the power to contract, sue and be sued and hold, dispose of and manage real property. The primary function of the Drainage Districts is to direct the construction and maintenance of drains, sewers and water supply systems within the County. The activities of the Drainage Districts are included in the County's financial statements as the exclusion of these activities would be misleading. Separate independently audited financial statements of the Drainage Districts are not prepared.

The **County of Macomb Hospital Finance Authority** is governed by a five-member board appointed by the Macomb County Board of Commissioners. The Authority was created pursuant to Public Act 38 of 1969 for the purpose of providing hospitals within the County the opportunity to finance capital projects at favorable interest rates. Public Act 38 allows hospitals to finance capital projects through the Authority, which enjoys the County's excellent credit rating.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Basic (Government-Wide) and Fund Financial Statements-**

The activities of the County are categorized as either governmental or business-type in both the government-wide and fund financial statements. The majority of the County's activities are governmental activities and are supported primarily by property taxes, charges for services and intergovernmental revenues while business-type activities are supported by fees and charges for services.

For the most part, the effect of interfund activity has been eliminated from these statements. However, interfund activity between governmental activities and business-type activities has not been eliminated so as to not distort the direct costs and program revenues of the various functions.

The **basic (government-wide) financial statements** report information on the County as a whole. These statements focus on the sustainability of the County as an entity and the change in aggregate financial position resulting from the activities of the fiscal period and consist of the **Statement of Net Assets** and the **Statement of Activities**.

The **Statement of Net Assets** presents information on all of the assets and liabilities of the County, with the difference between the two reported as *net assets*. Net assets are classified into one of three categories for accounting and financial reporting purposes:

- Invested in capital assets, net of related debt. This category represents the cost of the County's capital assets, net of accumulated depreciation and reduced by any outstanding debt used to acquire those assets.
- Restricted. Assets are considered restricted when constraints are placed on their use by external sources such as creditors and grantors, or imposed by statute.
- Unrestricted. Net assets that do not meet the definition of the two preceding categories are considered unrestricted and can be used for new spending. Designations are often placed on unrestricted net assets to indicate that internal restrictions have been placed upon their use. However, designations differ from restrictions in that they may be subsequently removed or modified by management or the Board of Commissioners.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues are segregated into three categories: charges for services, operating grants and capital grants. Charges for services are those revenues generated from charges to customers or applicants who purchase, use or directly benefit from the goods and services provided by a given function or segment. Operating and capital grants are those restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenues not specifically associated with a particular program are reported as general revenues in the Statement of Activities.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Basic (Government-Wide) and Fund Financial Statements (continued)-**

**Fund financial statements** report information at the individual fund level and are, in substance, very similar to the financial statements presented in the previous financial reporting model. The focus of the fund financial statements is on the major funds of both governmental and business-type activities. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the basic financial statements and are detailed in the supplementary information. Funds are classified as governmental, proprietary or fiduciary. The fiduciary funds are included in the fund financial statements but are excluded from the government-wide financial statements since these assets are being held for the benefit of third parties and are not available to support the activities or obligations of the County.

The County reports the following major governmental funds:

- The *General Fund* is the chief operating fund of the County. It accounts for all financial resources except those required to be accounted for in another fund.
- The *Revenue Sharing Reserve Fund* is required by the State of Michigan and accounts for property tax collections that serve as a substitute for State revenue sharing payments. This funding mechanism involves a gradual shift in the collection of County property taxes from December to July of each year.

The County reports the following major enterprise funds:

- The *Delinquent Tax Revolving Fund* accounts for the County's annual purchase of delinquent real property taxes from each of the local taxing jurisdictions in the County and their subsequent collection. In addition, the operations of the personal property tax collection division of the Treasurer's Office are reported here.
- The *Community Mental Health Fund* accounts for the activities of delivering an array of mental health services to County residents.
- The *Martha T. Berry Medical Care Facility* accounts for the activities of delivering long-term nursing care to County residents.
- The *Freedom Hill Park* fund accounts for the operations of the Freedom Hill County Park.

Financial information regarding the County's Internal Service Funds is presented in summary form as part of the proprietary fund financial statements. Since the principal users of the services of these funds are the County's governmental activities, the financial statements of the internal service funds are consolidated into the governmental activities in the entity-wide financial statements. Surpluses or deficits of the internal service funds are allocated back to the governmental activities within the government-wide financial statements.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Basis of Presentation - Fund Accounting (concluded)** - The accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The funds of the County are classified into three broad categories: governmental, proprietary and fiduciary.

**Governmental Funds**

**General Fund** – The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in other funds.

**Special Revenue Funds** – Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specific purposes.

**Debt Service Funds** – Debt service funds are used to account for the accumulation of resources for, and the payment of, principal, interest and related costs of general long-term debt not being accounted for in proprietary funds.

**Capital Projects Funds** – Capital projects funds are used to account for the acquisition, construction or renovation of major capital facilities other than those accounted for in proprietary funds.

**Proprietary Funds**

**Internal Service Funds** – Internal services funds are used to account for goods and services provided to other departments and governmental agencies on a cost-reimbursement basis.

**Enterprise Funds** – Enterprise funds are used to account for the activities of the County's business-type activities. The operations of these funds are financed primarily through user fees and are intended to recover the cost of services provided.

**Fiduciary Funds**

**Employees' Retirement Fund** – The Employees' Retirement Fund is used to account for the accumulation of resources for pension benefit payments to qualified employees.

**Retiree Health Care Trust Fund** – The Retiree Health Care Trust Fund is used to account for the accumulation of resources to provide health care benefits to County retirees.

**Agency Funds** – Trust and agency funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 1 – Summary of Significant Accounting Policies (continued)**

Measurement Focus and Basis of Accounting – Basis of accounting refers to when revenues and expenses are recognized and reported in the financial statements.

The government-wide financial statements as well as the financial statements of the proprietary funds and pension trust funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred without regard to the receipt or payment of cash or its equivalent.

The governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues of governmental funds are recognized when they become both measurable and available. "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of year-end.

Federal grants, state distributions and grants, property taxes and interest earned are accrued since they are both measurable and available. Special assessments are recognized as revenues only to the extent that individual installments are due within one year. Licenses and permits, fines and forfeitures and other revenues are recorded when received in cash because they are generally not measurable until actually received. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, with the exception of principal and interest on general long-term debt, which is recognized when due. The majority of the funds of the County are accounted for using the modified accrual basis of accounting. Because the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is provided after each governmental fund financial statement that briefly explains the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements.

Inventories - Inventories are valued at cost. Cost is determined by the first-in, first-out method. Inventories in the General Fund and the Road Commission (component unit) consist of expendable items held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Inventories reported in the General Fund are equally offset by a fund balance reserve that indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Under current governmental accounting principles, establishing a reserve for inventories determined on the consumption basis is optional. As a matter of policy, the Road Commission has elected not to establish a fund balance reserve for its inventories.

Surplus Property – Surplus property is recorded at the lower of cost or market and represents currently available expendable resources.

Other Assets – Other assets represent deposits and prepaid expenses.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 1 – Summary of Significant Accounting Policies (continued)**

Budgetary Accounting – In establishing the budgetary data reflected in the financial statements, the County follows these procedures:

- Prior to October 1, the County Finance Director submits to the Board of Commissioners a proposed operating budget for the year commencing January 1. The annual operating budget includes proposed expenditures and the means of financing them for the General Fund, Friend of the Court, Health, County Library, Medical Care Facility, Parks, Social Services, Community Services Agency, Senior Citizens Services and Child Care Special Revenue Funds. For those Special Revenue Funds and component units without annual operating budgets (MSU Extension Grants, Sheriff Grants, Urban County Block Grant, Prosecuting Attorney Grants, Health Grants, Other Special Revenue Funds and Michigan Works!), legal authorization for spending is obtained through approval of the Board of Commissioners or other appropriate authoritative body. Similarly, legal authorization for the spending of Debt Service Funds and Capital Projects Funds is provided by Board of Commissioners' approval of bond ordinances, grant agreements, construction contracts and special assessment rolls.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to December 31, the budget is legally enacted through passage of a resolution by the Board of Commissioners.

Formal budgetary integration is employed as a management control device during the year for all funds. Expenditures may not legally exceed budgeted appropriations at the function and object level within an individual department. Management cannot amend the enacted budget without the consent of the Finance Committee of the Board of Commissioners. The Finance Committee is authorized to transfer budgeted amounts within the legal levels of budgetary control. Any revisions that alter the total expenditures of any legal level of budgetary control must be approved by the Board of Commissioners. During the year, supplemental budgetary appropriations were not significant in relation to the original appropriations as adopted. Unexpended appropriations lapse at year-end. Encumbrances open at year-end are reappropriated in the following year. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts, as presented in the financial statements, represent final budget authorization, including all amendments approved during the year.

Capital Assets – Capital assets of the primary government, including land, land improvements, buildings, equipment and vehicles, are reported in the government-wide financial statements and the applicable proprietary fund financial statements. Capital assets utilized for governmental activities are only capitalized in the government-wide financial statements and are fully expended in the governmental funds. Capital assets of the component units, including infrastructure assets such as roads, bridges and drains, are reported in the Public Works and Road Commission Component Units. The County capitalizes assets whose initial purchase price equals or exceeds \$5,000 and whose estimated useful life exceeds one year. The Road Commission capitalizes assets whose initial cost equals or exceeds \$1,000 and estimated useful life exceeds one year. Capital assets are valued at historical cost or estimated historical cost. Donated properties are recorded at fair market value at the date of donation.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 1 – Summary of Significant Accounting Policies (continued)**

Capital Assets (concluded) – Depreciation of all exhaustible capital assets is allocated against the various functions in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets. Depreciation has been provided over the following estimated useful lives using the straight-line method: land improvements - 10-20 years, buildings and improvements – 25-50 years, equipment - 3-20 years, vehicles - 5 years and infrastructure 8-50 years.

Compensated Absences – County employees earn vacation and sick leave benefits based on length of service. Both fully vest upon completion of a probationary period of six months. Upon separation from service, employees are paid accumulated vacation and sick pay based upon the nature of separation (death, retirement or termination). Certain limitations have been placed on the number of hours of vacation and sick leave that may be accumulated and carried over for payment at separation of service. Unused hours exceeding these limitations are forfeited. Accumulated unpaid vacation, sick pay and other employee benefit liabilities have been accrued in the Compensated Absences Internal Service Fund.

Encumbrances – Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds. Encumbrances outstanding at year-end are reported as reserves of fund balances since they do not constitute expenditures or liabilities. In addition, the encumbrances outstanding at year-end are reappropriated and spent under authorization of a new budget.

Property Taxes – The County property tax is levied each December 1 based on the taxable value of property as of the preceding December 31. Taxes are billed and collected for the County by the local units within the County and are payable in one installment no later than February 28 of the following year, at which time they become delinquent and subject to penalty. Taxable value is established annually by the local units, accepted by the County and equalized by the State of Michigan to approximate 50% of market value (SEV). The annual increase in taxable value is limited by State statute to the rate of inflation or 5%, whichever is less. Taxable value reverts to SEV when a property is sold or when SEV drops below taxable value. The taxable value of real and personal property in Macomb County for the December 1, 2003 levy (calendar 2004 revenue) was \$25,573,225,399. The County operating tax rate for the 2003 levy was 4.20 mills.

The County, through its Delinquent Tax Revolving Fund, purchases annually from the municipalities within the County, at face value, the delinquent real property taxes receivable, as certified to the County as not collected as of March 1. The Delinquent Tax Revolving Fund is self-supporting at this time. Collection of these delinquent property taxes will be used to purchase future delinquent real property taxes from municipalities within the County.

Use of Estimates – The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 1 – Summary of Significant Accounting Policies (concluded)**

Application of FASB Pronouncements – The County and its component units apply all applicable pronouncements of the Financial Accounting Standards Board (FASB) in accounting for their proprietary operations (excluding internal service funds), unless those pronouncements conflict with guidance issued by the Governmental Accounting Standards Board after November 30, 1989, as prescribed by GASB Statement No. 20.

**Note 2 - Cash and Investments**

The County maintains a cash and investment pool that is available for use by all funds, except the Pension Trust Fund and the Retiree Health Care Trust Fund. In addition to their participation in the pool, certain funds also maintain separate investment accounts, consisting primarily of certificates of deposit and money market accounts. Each fund's portion of the pool as well as any amounts in separate accounts are reported as "Cash and Pooled Investments".

Cash and Certificates of Deposit – At year-end, the book value of the deposits of the primary government and component units was \$206,136,945 and \$99,951,805, respectively, with corresponding bank balances of \$216,888,640 and \$102,468,038. Qualifying deposits are insured by the FDIC up to \$100,000. Of the bank balance of the primary government, \$800,000 was insured and the remaining \$216,088,640 was uninsured and uncollateralized. Of the bank balances of the component units, \$900,000 was insured and the remaining \$101,568,038 was uninsured and uncollateralized.

Investments – Statutes of the State of Michigan authorize the County to invest in the following instruments: obligations of the U.S. Treasury and its agencies and instrumentalities, commercial paper rated within the two highest classifications established by not less than two standard rating services, bankers' acceptances, investment pools of the Treasurer of the State of Michigan, and repurchase agreements. In addition, the Pension Trust Fund and Retiree Health Care Trust Fund are also authorized to invest in corporate bonds rated in the top four major grades as determined by at least two national rating services. Additionally, corporate stock limited to sixty five percent (65%) of the total portfolio of the Trust Funds, based on market value. The Pension Trust Fund also participates in securities lending transactions (see Note 7).

Investments are carried at fair value and are categorized in the following summary to give an indication of the level of risk assumed by the County at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the county or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the county's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agents but not in the County's name.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 2 - Cash and Investments (concluded)**

The carrying value of the County's investments by risk category and type at December 31, 2004, as follows:

	Category			Carrying Amount
	1	2	3	
Primary Government and Fiduciary Funds				
US Government Securities	\$ 14,152,927	\$ -	\$ 39,103,631	\$ 53,256,558
Commercial paper	26,926,413	-	-	26,926,413
Corporate stocks, bonds and notes	-	-	447,881,800	447,881,800
	<u>\$ 41,079,340</u>	<u>\$ -</u>	<u>\$ 486,985,431</u>	<u>528,064,771</u>
Deposits				206,136,945
Mutual Funds				265,554,660
Partnership units				16,592,245
Securities lending				
US Government Securities				10,659,627
Cash collateral				<u>36,460,439</u>
Total Primary Government and Fiduciary Funds Deposits and Investments				<u>1,063,468,687</u>
Component Units:				
Deposits and investments				<u>99,951,805</u>
Total Reporting Entity Deposits and Investments				<u>\$ 1,163,420,492</u>

  

Description	Primary Government	Component Units	Fiduciary Funds	Total
General Fund	\$ 60,165,592	\$ -	\$ -	\$ 60,165,592
Special Revenue	14,526,181	-	-	14,526,181
Debt Service	7,741,186	-	-	7,741,186
Capital Projects	36,303,324	-	-	36,303,324
Internal Service	28,741,008	-	-	28,741,008
Enterprise (Business-type activities)	62,653,664	-	-	62,653,664
Employees' Retirement System	-	-	747,586,745	747,586,745
Retiree Health Care	-	-	85,846,260	85,846,260
Agency	-	-	19,904,727	19,904,727
Workforce Development Board	-	99,459	-	99,459
Public Works Component Unit	-	51,553,686	-	51,553,686
Road Commission Component Unit	-	48,291,015	-	48,291,015
Hospital Finance Authority Component Unit	-	7,645	-	7,645
Total	<u>\$ 210,130,955</u>	<u>\$ 99,951,805</u>	<u>\$ 853,337,732</u>	<u>\$ 1,163,420,492</u>

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 3 – Capital Assets**

The following is a summary of capital asset activity of the governmental activities of the County for the year ended December 31, 2004:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 6,114,204	\$ 3,119,280	\$ -	\$ 9,233,484
Construction in progress	36,717,860	31,431,799	54,674,440	13,475,219
Total capital assets not being depreciated	42,832,064	34,551,079	54,674,440	22,708,703
Capital assets being depreciated				
Land improvements	4,567,765	416,593	-	4,984,358
Buildings	128,723,798	38,930,286	-	167,654,084
Machinery, equipment and vehicles	34,766,273	9,678,445	616,321	43,828,397
Total capital assets being depreciated	168,057,836	49,025,324	616,321	216,466,839
Less accumulated depreciation for				
Land improvements	2,020,425	202,789	562	2,222,652
Buildings	47,275,442	4,316,007	(35,869)	51,627,318
Machinery, equipment and vehicles	24,644,416	3,657,451	512,857	27,789,010
Total accumulated depreciation	73,940,283	8,176,247	477,550	81,638,980
Total capital assets being depreciated, net	94,117,553	40,849,077	138,771	134,827,859
Governmental activities capital assets, net	<u>\$ 136,949,617</u>	<u>\$ 75,400,156</u>	<u>\$ 54,813,211</u>	<u>\$ 157,536,562</u>

The primary government does not report any infrastructure assets as of December 31, 2004.

Depreciation expense was charged to the functions of the governmental activities as follows:

	Governmental Assets	Internal Service Assets	Total
Governmental activities:			
Judicial	\$ 1,347,384	\$ -	\$ 1,347,384
General government	2,427,570	378,665	2,806,235
Health and welfare	1,730,479	-	1,730,479
Recreation and culture	73,140	-	73,140
Public safety	2,219,009	-	2,219,009
	<u>\$ 7,797,582</u>	<u>\$ 378,665</u>	<u>\$ 8,176,247</u>

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 3 – Capital Assets (continued)**

The following is a summary of capital asset activity of the business-type activities of the County for the year ended December 31, 2004:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 93,259	\$ -	\$ 93,259
Total capital assets not being depreciated	-	93,259	-	93,259
Capital assets being depreciated				
Land improvements	337,934	-	-	337,934
Buildings	6,328,802	9,070	(9,864)	6,347,736
Machinery, equipment and vehicles	2,807,456	128,819	72,572	2,863,703
Total capital assets being depreciated	9,474,192	137,889	62,708	9,549,373
Less accumulated depreciation for				
Land improvements	219,498	10,028	-	229,526
Buildings	4,237,900	168,849	399	4,406,350
Machinery, equipment and vehicles	2,443,039	69,528	62,309	2,450,258
Total accumulated depreciation	6,900,437	248,405	62,708	7,086,134
Total capital assets being depreciated, net	2,573,755	(110,516)	-	2,463,239
Business-type activities capital assets, net	\$ 2,573,755	\$ (17,257)	\$ -	\$ 2,556,498

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 3 – Capital Assets (continued)**

The following is a summary of changes in the Public Works Component Unit capital assets for the year ended September 30, 2004:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 1,992,428	\$ -	\$ -	\$ 1,992,428
Construction in progress	14,372,603	7,052,983	18,793,717	2,631,869
Total capital assets not being depreciated	<u>16,365,031</u>	<u>7,052,983</u>	<u>18,793,717</u>	<u>4,624,297</u>
Capital assets being depreciated				
Infrastructure	199,429,179	18,793,717	-	218,222,896
Less accumulated depreciation for				
Infrastructure	<u>50,035,279</u>	<u>4,176,521</u>	<u>-</u>	<u>54,211,800</u>
Total capital assets being depreciated, net	<u>149,393,900</u>	<u>14,617,196</u>	<u>-</u>	<u>164,011,096</u>
Governmental activities capital assets, net	<u><u>\$ 165,758,931</u></u>	<u><u>\$ 21,670,179</u></u>	<u><u>\$ 18,793,717</u></u>	<u><u>\$ 168,635,393</u></u>

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 3 – Capital Assets (concluded)**

The following is a summary of changes in the Road Commission Component Unit capital assets for the year ended September 30, 2004:

	Beginning Balance (As Restated)	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 159,938,295	\$ 8,004,115	\$ -	\$ 167,942,410
Total capital assets not being depreciated	159,938,295	8,004,115	-	167,942,410
Capital assets being depreciated				
Land improvements	1,314,800	2,656	-	1,317,456
Buildings	23,467,968	754,582	-	24,222,550
Machinery, equipment and vehicles	23,899,612	1,989,699	887,900	25,001,411
Infrastructure	688,962,267	56,752,693	-	745,714,960
Total capital assets being depreciated	737,644,647	59,499,630	887,900	796,256,377
Less accumulated depreciation for				
Land improvements	550,468	65,829	-	616,297
Buildings	4,096,166	479,163	-	4,575,329
Machinery, equipment and vehicles	17,179,508	2,519,573	828,625	18,870,456
Infrastructure	233,806,308	28,442,914	-	262,249,222
Total accumulated depreciation	255,632,450	31,507,479	828,625	286,311,304
Total capital assets being depreciated, net	482,012,197	27,992,151	59,275	509,945,073
Governmental activities capital assets, net	<u>\$ 641,950,492</u>	<u>\$ 35,996,266</u>	<u>\$ 59,275</u>	<u>\$ 677,887,483</u>

The net book value of the capital assets of the Road Commission, a discretely presented component unit, were restated as of September 30, 2003 by the other auditors to account for assets (primarily infrastructure) that were in service but not reported at September 30, 2003 in the amount of \$39,055,170. Net income of governmental activities for the year ended September 30, 2003 was reduced by approximately \$9,600,000 as a result of this adjustment.

Capital assets at September 30, 2003, as previously reported	\$ 602,895,322
Capital assets, net of accumulated depreciation	<u>39,055,170</u>
Capital assets at September 30, 2003, as restated	<u>\$ 641,950,492</u>

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 4 – Long-Term Debt**

The following is a summary of the long-term liability transactions for the year ended December 31, 2004:

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government</b>					
<b>Governmental activities</b>					
Criminal Justice Bldg Authority					
Series 1989 Jail Renovation	\$ 300,000	\$ -	\$ -	\$ 300,000	\$ -
Series 1996 Refunding	1,295,000	-	310,000	985,000	315,000
Series 2002-B Refunding	5,805,000	-	280,000	5,525,000	280,000
Building Authority					
Series 1996-A Warren Satellite	800,000	-	175,000	625,000	175,000
Series 1999 Verkuilen Bldg	795,000	-	120,000	675,000	125,000
Series 2000 Clemens Center	3,625,000	-	150,000	3,475,000	150,000
Series 2002 MTB/Youth Home	30,700,000	-	1,100,000	29,600,000	1,100,000
Series 2002-A Refunding	8,800,000	-	585,000	8,215,000	610,000
Series 2004 Warehouse	-	5,100,000	-	5,100,000	175,000
Series 2004-A Public Works Bldg	-	4,250,000	-	4,250,000	150,000
MI Transportation Fund					
Series 2000-A Bridge Bonds	4,265,000	-	265,000	4,000,000	280,000
Series 2004-B Bridge Bonds	-	10,000,000	-	10,000,000	200,000
	56,385,000	19,350,000	2,985,000	72,750,000	3,560,000
<b>Other liabilities</b>					
Compensated Absences	6,528,849	1,743,914	1,373,030	6,899,733	1,000,000
General liability claims	2,980,836	854,629	218,667	3,616,798	1,100,000
Workers' compensation claims	1,882,080	996,177	879,382	1,998,875	1,000,000
	67,776,765	22,944,720	5,456,079	85,265,406	6,660,000
<b>Component Units</b>					
Drain Commissioner					
Special Assessment Debt	80,468,171	20,287,433	4,190,000	96,565,604	13,530,000
Road Commission					
Compensated Absences	1,140,706	108,903	-	1,249,609	-
General liability claims	1,785,015	13,723	52,204	1,746,534	140,292
Workers' compensation claims	266,269	251,440	170,934	346,775	114,475
Total Road Commission	3,191,990	374,066	223,138	3,342,918	254,767
<b>Grand Totals</b>	<b>\$ 151,436,926</b>	<b>\$ 43,606,219</b>	<b>\$ 9,869,217</b>	<b>\$ 185,173,928</b>	<b>\$ 20,444,767</b>

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 4 – Long-Term Debt (continued)**

Long-term bonded debt of the Primary Government and Component Units consists of the following:

Issue	Interest Rate	Date of Issue	Maturing Through	Original Issue Amount	Balance End of Year
<b>Primary Government</b>					
<b>Governmental activities</b>					
Criminal Justice Building Authority					
Series 1989 Jail Renovation	4.00-8.50%	9/1/1989	5/1/2008	3,800,000	300,000
Series 1996 Refunding	4.00-5.80	2/1/1996	5/1/2007	3,190,000	985,000
Series 2002-B Refunding	2.00-4.00	1/1/2003	7/1/2013	5,830,000	5,525,000
Macomb County Building Authority					
Series 1996-A Warren Satellite Renovation	3.80-4.80	5/1/1997	5/1/2007	1,700,000	625,000
Series 1999 Verkuilen Bldg Renovation	4.00-4.90	11/1/1999	5/1/2009	1,205,000	675,000
Series 2000 Clemens Center	4.70-5.70	8/1/2000	5/1/2020	4,000,000	3,475,000
Series 2002 MTB/Youth Home Renovation	3.50-5.00	5/1/2002	5/1/2022	32,000,000	29,600,000
Series 2002-A Refunding	2.50-4.00	12/1/2002	5/1/2015	8,885,000	8,215,000
Series 2004 Warehouse	2.00-5.00	5/1/2004	5/1/2024	5,100,000	5,100,000
Series 2004-A Public Works Bldg	3.00-4.50	11/1/2004	5/1/2024	4,250,000	4,250,000
Michigan Transportation Bonds					
Series 2000-A Bridge Bonds	5.375-5.625	6/1/2000	12/1/2015	5,000,000	4,000,000
Series 2004-B Bridge Bonds	3.00-4.75	5/1/2004	12/1/2024	10,000,000	10,000,000
Total Primary Government				84,960,000	72,750,000
<b>Public Works Component Unit</b>					
<b>Special Assessment Debt</b>					
Busch Drain	3.80- 4.55	10/1/1998	5/1/2014	1,250,000	975,000
Diener Drain Enclosure # 2	4.00- 9.00	1/1/1991	5/1/2005	1,920,000	200,000
Green Enclosure	2.80 - 5.70	7/1/1992	5/1/2007	1,065,000	300,000
Hawken Drain	4.30 - 5.25	8/1/2000	5/1/2015	795,000	600,000
Hayes Drain	4.50 - 5.20	8/1/2000	5/1/2015	1,095,000	975,000
Plumbrook Bridge Replacement	4.00 - 5.00	8/1/2000	5/1/2015	2,800,000	2,350,000
17 Mile Road Drain & Branches	4.00 - 8.00	4/1/1973	5/1/2013	3,550,000	2,315,000
17 Mile Road Extension	3.00 - 4.50	11/01/2001	11/01/2016	1,725,000	1,500,000
Sterling Relief Lateral 12B Extension	2.00 - 4.00	09/01/2003	11/01/2012	885,000	820,000
Warren Sanitary Refunding	4.40 - 4.45	12/1/1997	1/1/2007	4,750,000	1,440,000
Armada Village MCSSS	2.00	1/23/1992	10/1/2011	1,170,000	470,000
Chesterfield New Haven, Lenox Section	5.00 - 10.00	5/1/1998	10/1/2007	2,775,000	775,000

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 4 – Long-Term Debt (continued)**

Issue	Interest Rate	Date of Issue	Maturing Through	Original Issue Amount	Balance End of Year
<b>Public Works Component Unit</b>					
<b>Special Assessment Debt</b>					
Macomb County Water Supply System #13 (Lenox Township Section 2)	4.80 - 5.50	3/1/1994	5/1/2008	1,590,000	570,000
Macomb County Water Supply System #14 (Lenox Township Section 3)	4.75 - 5.40	3/1/1997	11/1/2011	1,050,000	785,000
Macomb County Waste Water Treatment System - Amada Refunding Bonds	3.70 - 4.50	6/1/1999	11/1/2007	990,000	515,000
Macomb County Water Supply System #12 (St. Clair Shores Section 4)	4.00 - 4.85	11/1/1993	5/1/2005	1,500,000	160,000
Lake St. Clair Clean Water Initiative Series A	4.30 - 4.90	1/1/2001	10/1/2018	9,990,000	9,440,000
Lake St. Clair Clean Water Initiative Series B	Variable	4/25/2001	10/1/2004	17,775,000	8,620,000
State Revolving Fund Series #1 (5186-01)	2.50	Various	10/01/2022	20,670,000	19,040,000
Lake St. Clair Clean Water Initiative Phase II, No. 2		04/01/2002	04/01/2023	5,000,000	4,800,000
Lake St. Clair Clean Water Initiative State Revolving Fund Series #2 (5186-02)	2.50	Various	04/01/2022	13,630,000	12,555,000
Lake St. Clair Clean Water Initiative State Revolving Fund Series #3 (5186-03)	2.50	Various	04/08/2022	2,640,000	2,430,000
Lake St. Clair Clean Water Initiative State Revolving Fund Series #4 (5186-04)	2.50	Various	10/01/2022	5,550,000	5,115,000
Lake St. Clair Clean Water Initiative State Revolving Fund Series #5 (5186-05)	2.50	Various	10/01/2022	855,604	815,604
Lake St. Clair Clean Water Initiative Series 2004A	4.375 - 5.150	06/01/2004	10/01/2029	5,000,000	5,000,000
Lake St. Clair Clean Water Initiative Series 2004B	4.375 - 5.150	06/01/2004	10/01/2029	14,000,000	14,000,000
Total Public Works Component Unit				124,020,604	96,565,604
Total Reporting Entity				<u>\$ 208,980,604</u>	<u>\$ 169,315,604</u>

All long-term obligations are presented as of December 31, 2004 except for the Special Assessment Debt with Governmental Commitment and Road Commission obligations, which are presented as of September 30, 2004. Assessments receivable, including interest thereon, have been pledged for the payment of the Special Assessment Debt with Governmental Commitment. The County has also pledged its full faith and credit for the payment of the principal and interest on the Special Assessment Debt with Governmental Commitment.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 4 – Long-Term Debt (continued)**

The annual requirements necessary to pay principal on the obligations of the Primary Government and Component Units outstanding at year-end, exclusive of the compensated absences, general liability and workers' compensation accruals, are as follows:

<b>Principal Maturities</b>					
<b>Year</b>	<b>Primary Government</b>				<b>Public Works</b>
	<b>Building Authority</b>	<b>Criminal Justice Building Authority</b>	<b>MI Transportation Bonds</b>	<b>Total</b>	<b>Special Assessment Debt</b>
2005	\$ 2,485,000	\$ 595,000	480,000	\$ 3,560,000	\$ 13,530,000
2006	2,615,000	605,000	495,000	3,715,000	4,775,000
2007	2,720,000	615,000	660,000	3,995,000	4,515,000
2008	2,620,000	570,000	675,000	3,865,000	4,025,000
2009	2,700,000	270,000	740,000	3,710,000	3,915,000
2010-2014	14,515,000	4,155,000	4,285,000	22,955,000	20,870,000
2015-2019	14,135,000	-	3,065,000	17,200,000	19,400,000
2020-2024	10,150,000	-	3,600,000	13,750,000	15,905,604
2025-2029	-	-	-	-	9,630,000
	<u>\$ 51,940,000</u>	<u>\$ 6,810,000</u>	<u>\$ 14,000,000</u>	<u>\$ 72,750,000</u>	<u>\$ 96,565,604</u>

The annual requirements to pay interest on the obligations of the Primary Government and Component Units outstanding at year-end, exclusive of the compensated absences accrual, are as follows:

<b>Interest Maturities</b>					
<b>Year</b>	<b>Primary Government</b>				<b>Public Works</b>
	<b>Building Authority</b>	<b>Criminal Justice Building Authority</b>	<b>MI Transportation Bonds</b>	<b>Total</b>	<b>Special Assessment Debt</b>
2005	\$ 2,176,343	\$ 251,537	632,282	\$ 3,060,162	\$ 3,481,573
2006	2,086,228	230,725	611,232	2,928,185	3,021,136
2007	1,988,344	208,775	588,126	2,785,245	2,851,244
2008	1,888,419	186,125	558,776	2,633,320	2,679,977
2009	1,787,858	170,600	528,618	2,487,076	2,743,463
2010-2014	7,294,597	415,262	2,114,810	9,824,669	10,609,295
2015-2019	4,108,208	-	1,193,156	5,301,364	7,302,484
2020-2024	890,889	-	531,200	1,422,089	4,173,612
2025-2029	-	-	-	-	1,593,938
	<u>\$ 22,220,886</u>	<u>\$ 1,463,024</u>	<u>\$ 6,758,200</u>	<u>\$ 30,442,110</u>	<u>\$ 38,456,722</u>

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 4 – Long-Term Debt (continued)**

New Debt Issued - In April 2004, the County issued \$10,000,000 of Series B general obligation limited tax Michigan Transportation Bonds dated May 1, 2004 for the purpose of repairing and replacing structurally unsound or closed bridges in various locations throughout the County. The bonds, issued in denominations of \$5,000 or multiples thereof, bear interest from 3.00% to 4.75% and are due serially through Dec 1, 2024. The bonds were issued pursuant to Public Act 51 of the State of Michigan, as amended, and represent a general obligation of the County. Bonds maturing prior to December 1, 2013 are not subject to redemption prior to maturity. Bonds maturing on or after December 1, 2013 may be redeemed at par beginning December 1, 2012.

In May 2004, the Macomb County Building Authority issued \$5,100,000 of Series 2004 general obligation limited tax bonds dated May 1, 2004 for the purpose of purchasing a 105,000 square foot warehouse. Bonds totaling \$4,400,000, issued in denominations of \$5,000 or multiples thereof, bear interest from 2.00% to 4.45% and are due serially through May 1, 2022. The remaining \$700,000 term bonds bear interest at 5.00% and are due May 1, 2024. The bonds are to be repaid from rental payments to be received pursuant to a lease agreement executed between the Macomb County Building Authority and the County. Bonds maturing prior to May 1, 2012 are not subject to redemption prior to maturity. Bonds maturing on or after May 1, 2012 may be redeemed at par beginning May 1, 2011.

In November 2004, the Macomb County Building Authority issued \$4,250,000 of Series 2004-A general obligation limited tax bonds dated November 1, 2004 for the purpose of constructing a new facility to house the Office of the Public Works Commissioner. The bonds, issued in denominations of \$5,000 or multiples thereof, bear interest from 3.00% to 4.45% and are due serially through May 1, 2024. The bonds are to be repaid from rental payments to be received pursuant to a lease agreement executed between the Macomb County Building Authority and the County. Bonds maturing prior to May 1, 2012 are not subject to redemption prior to maturity. Bonds maturing on or after May 1, 2012 may be redeemed at par beginning May 1, 2011.

In prior years, the Lake St. Clair Clean Water Initiative Drain Drainage District (the "District") entered into various loan agreements with the Michigan Municipal Bond Authority, through its State Revolving Fund, to borrow up to \$43,465,000 for the purpose of defraying a portion of the cost of certain intra-county drain projects located in the cities of Eastpointe, Roseville and St. Clair Shores (the "Cities"). The loans are evidenced by bonds issued by the District and purchased by the Authority. The proceeds of the bonds are drawn down as construction costs are incurred and approved by the District and the Authority. During the year ended September 30, 2004, the District drew down \$1,287,433 and had drawn down \$43,345,604 as of September 30, 2004. The bonds bears interest at a rate of 2.50% and are due serially through October 1, 2023 and were issued pursuant to the provisions of Chapter 20 of Act 40, Public Acts of Michigan, 1956, as amended. The bonds are to be repaid from assessments against the Cities. These assessments are a general obligation of the Cities and are payable from City general funds or ad valorem taxes which may be levied by the Cities. The County has also pledged its full faith and credit as additional security for the payment of the principal and interest on the bond when due. The bond is subject to redemption prior to maturity only with the prior written consent of the Authority.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 4 – Long-Term Debt (concluded)**

New Debt Issued (concluded) - In June 2004, the Lake St. Clair Clean Water Initiative Drain Drainage District (the "District") issued \$5,000,000 of Series 2004-A Limited Tax General Obligation Bonds dated June 1, 2004 for the purpose of financing certain drain projects located in the cities of Eastpointe, Roseville and St. Clair Shores (the "Cities"). Bonds totaling \$3,750,000 were issued in denominations of \$5,000 or multiples thereof, bear interest from 4.375 to 5.000% and are due serially through October 1, 2025. The remaining \$1,250,000 term bonds bear interest at 5.15% and are due October 1, 2029. The bonds were issued pursuant to the provisions of Chapter 20 of Public Act 40 of the State of Michigan, as amended, and are a general obligation of the Cities. The bonds are payable from special assessments against the cities. The special assessments are general obligations of the Cities and are payable from the general funds of the Cities or ad valorem taxes which may be levied by the Cities. The County has also pledged its full faith and credit as additional security for the payment of the principal and interest on the bonds when due. Bonds maturing prior to October 1, 2014 are not subject to redemption prior to maturity. Bonds maturing on or after October 1, 2014 may be redeemed at par beginning October 1, 2013.

In June 2004, the Lake St. Clair Clean Water Initiative Drain Drainage District (the "District") issued \$14,000,000 of Series 2004-B Limited Tax General Obligation Bonds dated June 1, 2004 for the purpose of financing certain drain projects located in the city of St. Clair Shores (the "City"). Bonds totaling \$10,550,000 were issued in denominations of \$5,000 or multiples thereof, bear interest from 4.375 to 5.000% and are due serially through October 1, 2025. The remaining \$3,450,000 term bonds bear interest at 5.15% and are due October 1, 2029. The bonds were issued pursuant to the provisions of Chapter 20 of Public Act 40 of the State of Michigan, as amended, and are a general obligation of the City. The bonds are payable from special assessments against the City. The special assessments are general obligations of the City and are payable from the general funds of the City or ad valorem taxes which may be levied by the City. The County has also pledged its full faith and credit as additional security for the payment of the principal and interest on the bonds when due. Bonds maturing prior to October 1, 2014 are not subject to redemption prior to maturity. Bonds maturing on or after October 1, 2014 may be redeemed at par beginning October 1, 2013.

Defeased debt - In prior years, the County defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the financial statements of the County. At December 31, 2004, the amount of defeased debt outstanding but not reported as long-term debt of the County totaled \$900,000 and \$ 375,000 for the primary government and Public Works Component Units, respectively.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 5 – Interfund Receivables, Payables and Transfers**

Fund	Due From Other Funds	Due To Other Funds	Due From Component Units	Due To Primary Government
General Fund	\$ 14,437,390	\$ 2,502,686	\$ 4,326,303	\$ -
Revenue Sharing Reserve Fund	-	9,070,179	-	-
<u>Special Revenue</u>				
Community Services Agency	15,965	-	-	-
Emergency Management Grants	-	258,716	-	-
Senior Citizen Services	-	5,653	-	-
Sheriff Grants	-	99,068	-	-
	<u>15,965</u>	<u>363,437</u>	<u>-</u>	<u>-</u>
Debt Service Fund	816	96	-	-
<u>Internal Service Funds</u>				
Equipment Revolving	98,481	-	-	-
General Liability Insurance	9,607	-	-	-
	<u>108,088</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Business-type activities Funds</u>				
Delinquent Tax Revolving	7,229,198	204,461	-	-
Community Mental Health	-	787,564	-	-
Martha T. Berry	-	2,111,716	-	-
	<u>7,229,198</u>	<u>3,103,741</u>	<u>-</u>	<u>-</u>
<u>Fiduciary Funds</u>				
Pension Trust	328,048	1,048,691	-	-
Retiree Health Fund	-	2,295,677	-	-
Agency Funds	1,113,484	4,848,482	-	-
	<u>1,441,532</u>	<u>8,192,850</u>	<u>-</u>	<u>-</u>
<u>Component Units</u>				
Public Works	-	-	-	1,445,800
Michigan Works !	-	-	-	2,880,503
	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,326,303</u>
	<u>\$ 23,232,989</u>	<u>\$ 23,232,989</u>	<u>\$ 4,326,303</u>	<u>\$ 4,326,303</u>

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 5 – Interfund Receivables, Payables and Transfers (continued)**

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 19,668,740	\$ 58,299,085
Revenue Sharing Reserve	-	9,070,179
<u>Special Revenue</u>		
Child Care	12,735,771	-
Community Services Agency	838,261	4,700
Emergency Management Grants	-	110,000
Friend of the Court	5,506,417	3,000,000
Health	11,893,299	-
Health Grants	381,203	178,432
Library	2,543,296	-
MSU Extension	25,000	-
Prosecuting Attorney Grants - Calendar	37,381	-
Prosecuting Attorney Grants - Fiscal	585,453	539,000
Senior Citizens Services - calendar	1,657,461	-
Sheriff Grants - calendar	484,520	748,518
Sheriff Grants - fiscal	1,044,558	685,971
Social Welfare	912,589	-
Urban County Block Grant	184,393	15,000
Other Special Revenue	553,647	135,520
	<u>39,383,249</u>	<u>5,417,141</u>
Debt Service Fund	5,231,832	-
<u>Capital Projects Funds</u>		
Bridge program	87,500	-
Clemens center	144,136	-
Public Works Building	401,630	-
Warehouse	287,579	-
General County Capital Projects Funds	11,586,615	6,380,834
	<u>12,507,460</u>	<u>6,380,834</u>
<u>Internal Service Funds</u>		
Equipment Revolving	403,870	-
General Liability Insurance	100,000	-
	<u>503,870</u>	<u>-</u>

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 5 – Interfund Receivables, Payables and Transfers (concluded)**

Fund	Transfers In	Transfers Out
<u>Business-type activities</u>		
Delinquent Tax Revolving	-	8,655,000
Community Mental Health	5,727,373	-
Martha T. Berry Medical Care Facility	4,651,829	-
Freedom Hill Park	837,682	-
	<u>11,216,884</u>	<u>8,655,000</u>
Subtotal	88,512,035	87,822,239
Imbalance caused by the timing effects of interfund transactions in funds with different year-end reporting dates	<u>(689,796)</u>	<u>-</u>
	<u>\$ 87,822,239</u>	<u>\$ 87,822,239</u>

At December 31, 2004, the County's Freedom Hill Park business-type unit reported construction in progress in the amount of \$93,259, the cost of which was paid for by the governmental capital projects funds. The value of the reported asset is reflected as a transfer in the Statement of Revenues, Expenses and Changes in Fund Net Assets of the Freedom Hill business-type unit.

Interfund advances at December 31, 2004 were

Fund	Advances Receivable	Advances Payable
<u>General Fund</u>	\$ 300,000	\$ -
Special Revenue - Library	30,000	-
Internal Service - Equipment Revolving	-	330,000
	<u>\$ 330,000</u>	<u>\$ 330,000</u>

**Note 6 – Deferred Compensation**

The County offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. In accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the assets of the plan are no longer reported as assets of the employer.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 7 – Employees' Retirement System**

Plan Description and Provision – The County sponsors and administers the Macomb County Employees' Retirement System (the "System"), a single employer defined benefit plan covering substantially all of the County's employees. The System was established in accordance with state statutes to provide retirement benefits for the employees of the County and its several offices, boards and departments, including the County Road Commission. At December 31, 2003 (date of the most recent actuarial valuation) the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits	1,534
Terminated employees entitled to benefits but not yet receiving them	232
Active employees covered by the plan	<u>2,861</u>
Total membership	<u><u>4,627</u></u>

Retirement Benefits- The following is a summary of the benefits provided to the members of the system. All members become vested in the System after 8 years of service.

General County- The majority of employees may retire if their age plus years of service equals or exceeds 70 and they have attained a minimum age of 50. The annual retirement benefit, payable monthly for life, is computed at 2.4% of final average compensation for the first 26 years of service and 1% for every year thereafter, with a maximum employer pension of 65%. Employees not covered by the provisions described above may retire at age 55 with 25 or more years of service or age 60 with 8 years of service. The annual retirement benefit, payable monthly for life, for these employees is computed at 2.2% of final average compensation for each year of service, with a maximum employer pension of 66%.

Sheriff Department- Employees may retire at any age with 25 or more years of service or age 60 with 8 years of service. The annual retirement benefit for the Sheriff and deputies, payable monthly for life, is computed at 2.64% of final average compensation multiplied by credited years of service with a maximum employer pension of 66%. The factor for the undersheriff, captains, jail administrator, command officers, corrections officers and dispatchers is 2.4% for the first 26 years of service and 1% for every year thereafter, with a maximum employer pension of 66%.

Road Commission- Employees may retire at age 55 with 25 or more years of service, at age 60 with 8 years of service or regardless of age if their age plus years of service equals or exceeds 70. The annual retirement benefit, payable monthly for life, is computed at 2.4% of final average compensation multiplied for the first 26 years of service and 1% for every year thereafter, with a maximum employer pension of 65%.

The System also provides death and disability benefits. If an employee leaves covered employment or dies before 8 years of credited service, accumulated employee contributions plus interest at the rate of 3.5% per year is refunded to the employee or designated beneficiary.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 7 – Employees' Retirement System (continued)**

Basis of Accounting – The financial statements of the System are prepared using the accrual basis of accounting. Employee and employer contributions are recognized in the period that the contributions are due. Benefits and refunds are recognized when due and payable according to the terms of the plan.

Method Used to Value Investments – In accordance with GASB Statement 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans", investments are reported at fair value, as indicated by quoted market prices as of December 31, 2004.

Funding Policy – The System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The County's required contribution for 2004 was \$8,577,844. Administrative costs of the System are financed from investment earnings. General County employees contribute 2.5% or 3.5% of their annual salary to the System depending upon classification. Road Commission employees contribute 3.5% of their annual salary. Sheriff employees contribute 4.0% of their annual salary. The County contributes the remaining amounts necessary to fund the System, using the actuarial basis specified by statute.

Annual Pension Cost and Net Pension Obligation – During the year ended December 31, 2004, employer contributions totaled \$8,577,844, as required by the actuarial valuation of the plan as of December 31, 2002. The normal cost and actuarial accrued liability are determined using an entry age actuarial funding method. Unfunded actuarial accrued liabilities (UAAL) due to benefit and assumption changes are being amortized as a level percent of payroll over a 16 year closed period. Remaining UAAL is being amortized as a level percent of payroll over a 8-year open period. The County has historically contributed 100% of the annual required contribution. Three-year trend information regarding the County's annual pension cost, percent contribution and net pension obligation are presented below.

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	3,263,741	100	\$ -
2003	3,042,099	100	-
2004	8,577,844	100	-

Significant actuarial assumptions used in determining the annual required contribution include (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 5.0% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 1.2% to 5.0% for various members per year, depending on service, attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 7 – Employees' Retirement System (concluded)**

Securities Lending – The Macomb County Employees' Retirement System is authorized to participate in securities lending agreements with its custodian. Such transactions involve loans of securities to broker/dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future and are perceived to be invisible to the third party money managers who manage segments of the portfolio. The market for securities lending has developed to provide temporary access to a large portfolio of securities for broker/dealers who have a need to borrow specific instruments. Broker/dealers collateralize their borrowings (typically in cash) to 102% of the security value for domestic securities and 105% for foreign securities and this collateral is adjusted daily to maintain the appropriate level. The System had no credit risk exposure to borrowers at year-end since the borrowers had collateralized the securities on loan at 102%. In addition, the system is indemnified through its agreement with its custodian should borrowers fail to return securities lent or fail to pay the System income distributions by the securities' issuers while the securities are on loan. The System may not pledge or sell collateral securities, except in the case of borrower default. The System periodically reviews the custodian's practices to ensure fair distributions by the securities' issuers while the securities are on loan. The value of securities on loan at December 31, 2004 was \$46,196,143.

**Note 8 – Post Employment Benefits**

The County and its Road Commission component unit provide certain health care and life insurance benefits for the 1,534 retirees and beneficiaries currently receiving retirement benefits. In accordance with labor agreements and County policy, substantially all of the County's employees may become eligible for these benefits if they meet normal vesting requirements while still working for the County. Hospitalization and life insurance benefits are provided through insurance companies, whose premiums are based on the benefits paid during the year. The County finances these expenditures for General County and Sheriff Department retirees through the Retiree Health Care Trust Fund of the primary government. Life insurance for General County and Sheriff Department retirees is accounted for in the operating funds of the County. All postemployment benefits of Road Commission retirees are accounted for in the accounts of the Road Commission Component Unit. Post-employment benefit expenditures are recognized when premiums are paid and totaled \$11,664,806 in 2004, consisting of \$9,156,306 for County retiree health care, \$2,450,000 for Road Commission retiree health care and \$58,500 for County life insurance.

**Note 9 – Contingencies and commitments**

Grants – The County receives funds from various Federal and State units to finance specific activities. The final determination of revenue is subject to the acceptance of project costs by the granting agency, usually after a compliance audit. To the extent that costs are disallowed by the granting agency, County monies would be required to reimburse the grant fund. The County does not believe that any disallowed costs would be material to the financial statements.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 10- Risk Management**

The County is exposed to various risks of loss related to property damage and loss, torts, errors and omissions, employee injury (workers' compensation) and medical benefits provided to employees and retirees. The County has purchased commercial insurance for property damage coverage and certain medical benefits, but is self-insured for workers' compensation and general liability claims up to certain retention amounts, at which time reinsurance begins. The County also self-funds certain medical benefits of employees and retirees. There were no significant reductions in insurance coverage in 2004 from the prior year. Claims settled during the past three years have not exceeded the retention amounts. Liabilities include estimates of claims incurred but not reported and are calculated considering the effects of inflation, recent claim settlement trends and other economic and social factors.

Workers' Compensation – Since December 1, 1978, the County has been partially self-insured against workers' compensation claims. Under the plan, the County is obligated to pay the first \$350,000 of an individual settlement or award with commercial insurance covering claims in excess of the retention to an aggregate of \$1,000,000 annually. At December 31, 2004, the primary government has accrued an aggregate of \$1,998,875 for unresolved workers' compensation claims and claims incurred but not reported. At September 30, 2004, the Road Commission component unit has accrued an aggregate of \$346,775 for unresolved workers' compensation claims and claims incurred but not reported. Changes in the estimated liabilities for the past two fiscal years were as follows:

	Primary Government		Road Commission	
	Year Ended December 31,		Year Ended September 30,	
	2004	2003	2004	2003
Estimated liability - beginning of year	\$ 1,882,080	\$ 1,636,851	\$ 266,269	\$ 327,468
Estimated claims incurred, including changes in estimates	996,177	1,207,538	251,440	110,948
Claims payments	(879,382)	(962,309)	(170,934)	(172,147)
Estimated liability - end of year	<u>\$ 1,998,875</u>	<u>\$ 1,882,080</u>	<u>\$ 346,775</u>	<u>\$ 266,269</u>

General Liability – The County is a defendant in various lawsuits in which plaintiffs seek damages of an indeterminable amount. Since December 1, 1977, the primary government has been partially self-insured for losses of a general liability nature. The County (excluding the Road Commission) is currently self-insured for losses of a general liability nature up to \$500,000 per claim, with commercial insurance covering claims in excess of the retention amount to an aggregate of \$10,000,000 annually. The Road Commission Component Unit is self-insured, within certain limits, for general liability claims arising prior to February 18, 1986 and subsequent to January 17, 1993 and is completely self-insured for claims arising within those dates. At September 30, 2004, the Road Commission had an accrual of \$1,746,534 for its unresolved general liability claims. The General Liability Insurance Internal Service Fund has been established to account for the self-insured aspects of this program for the primary government. At December 31, 2004, the primary government reported a balance of \$3,616,798 for its unresolved general liability claims.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements (continued)**  
**December 31, 2004**

**Note 10- Risk Management (concluded)**

Changes in the estimated liabilities for the past two fiscal years were as follows:

	Primary Government		Road Commission	
	Year Ended December 31,		Year Ended September 30,	
	2004	2003	2004	2003
Estimated liability - beginning of year	\$ 2,980,836	\$ 3,697,444	\$ 1,785,015	\$ 2,559,090
Estimated claims incurred, including changes in estimates	854,629	(642,653)	13,723	(701,682)
Claims payments	(218,667)	(73,955)	(52,204)	(72,393)
Estimated liability - end of year	<u>\$ 3,616,798</u>	<u>\$ 2,980,836</u>	<u>\$ 1,746,534</u>	<u>\$ 1,785,015</u>